



Co-operative Energy Ltd

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20 May 1999

Mr. Mark Worthington
Assistant Manager
Maritime Workers Credit Union
365-375 Sussex Street
SYDNEY NSW 2000

Dear Mr. Worthington:

Union Energy

Following my previous letter of 5 May 1999, I am pleased to enclose for discussion a plan on how to implement the Union Energy project.

In essence, the plan details a step-by-step process for securing negotiation authorisations from your members and negotiations with energy retailers. Key issues that impact on this process have also been identified.

The Maritime Workers Credit Union and Co-operative Energy Ltd need to establish a clear understanding of the process, explicate the Union's expectations and how to maximise the response from your members, identify clear timelines and eliminate any ambiguity and vagueness in the proposed process. This will enable any necessary adjustments to the plan so that we can move forward.

The immediate next steps would be the development of a brochure, the article for your newsletter and an authorisation form. Drafts are already in preparation.

Graeme Charles will telephone you late next week to discuss the plan.

In co-operation,

David Griffiths
Secretary



Union Energy

- 1 Objective will be to negotiate a competitively priced arrangement for electricity supply to members of Maritime Workers Credit Union. This would, of necessity, include not only the kWh price for peak and off peak electricity but also customer service, metering arrangements, energy audits, contract duration, price risk minimisation, outage compensation and payment protection insurance. Over time, this could include facilitating energy efficiency savings and the use of green power if sought by members as desirables.
 - 2 It is not envisaged at this stage that the Maritime Workers Credit Union will be directly involved in supplying energy or involved in distribution and billing.
 - 3 The engaged supplier could pay a commission for each member that signs up and for each year the members remain in the scheme. At this point of time this could be based on an annual payment for each member but this would be supplementary to price and service gains for members as end-users.
 - 4 Discussions will be undertaken initially with energy suppliers to establish extent that suppliers would be interested in the domestic market and tendering for supply. While domestic consumers will not be able to shop around for their electricity supplier until January 2001, first mover advantage warrants early discussion as occurred in the U.K. when the Trade Union Congress approached energy suppliers before the electricity market became contestable for domestic consumers this year. Clearly, however, the Union Energy initiative would put pressure on retailers to address small consumers.
 - 5 Parallel to this will be seeking authorisations from members of the Maritime Workers Credit Union to negotiate supply arrangements. These authorisations are necessary to demonstrate our bona fide with suppliers and authorise Co-operative Energy Ltd to negotiate on behalf of the individuals who authorise the co-operative.
 - 6 After preliminary discussions with suppliers, an invitation to bid would be made to energy suppliers. The bid will seek information on the following interalia – the nature and price of tariffs, commission payments to Union Energy and key commercial and operational information relating to marketing approach, meter reading and billing information, customer service options including dealing with disputes and complaints and readiness to supply. The timing of this bid will be determined as and when appropriate in consultation with the credit union and critical to this would be the number of members joining Union Energy and clarification of critical issues. A critical issue is whether or not small consumers should be required to purchase “smart” meters before they can shop around for an electricity supplier. This is being advocated by Victoria’s distribution businesses. “Smart” meters are not necessary and in the UK and California, U.S.A., small consumers are able to shop around without having ‘smart’ meters. Another issue is market risk – to ensure small consumers are not exposed, for instance, to price spikes.
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- 7 Once bids are received there will be meetings with the bidders, any necessary written clarifications sought and an analysis prepared of the bids with a recommendation to the Maritime Workers Credit Union for discussion and decision. The options could include choosing a preferred provider(s), renegotiation with selected providers and re-opening tenders immediately or at some time in the future. The comparative analysis would include what price guarantee has been given for the duration of what period of time, protection from market risk and the possibility of payment protection insurance in the event that a member lost their job through compulsory or voluntary redundancy. Payment protection insurance has been negotiated by the U.K. Trade Union Congress. Short-term cheap offers followed by price increases will be ruled out.
 - 8 If a decision is made on a preferred supplier it will be possible to draw up a Heads of Terms and Commercial Agreement. The onus will, then, be on the preferred supplier to market and sign members. There will be a contractual agreement with the preferred supplier to be negotiated at the time and this will depend on the price and service offer of the preferred supplier. It is possible that the contract could be renewable at the end of the contract period subject to conditions agreed to by the parties or it will be decided to re-open tenders for supply arrangements six months before the end of the contract.
 - 9 All responses to marketing by either telephone or post will be processed and dealt with by the preferred supplier. The Union Energy logo would be dominant on all communications and the design and form subject to approval of the credit union. A precedent for this is the Scottish Power arrangement with the UK Trades Union Congress.
 - 10 Credit union members who have registered their interest by completing authorisation forms will be sent individual contracts by the preferred supplier. These individual contracts will individually set out the tariff arrangements, the levels of service and options for method of payment consistent with the Heads of Terms and Commercial Agreement. Following agreements on contracts, the preferred supplier will make arrangements for any necessary switch-over to take place.
 - 11 The legal relationship will be between the preferred supplier and individual credit union members – not with the credit union or Co-operative Energy Ltd. There would be two complications with a direct legal relationship with the credit union or Co-operative Energy Ltd. This would result in financial and legal exposure to circumstances outside of our control and would necessitate securing a retailing licence and providing a significant 'bond'.
 - 12 It is envisaged that Co-operative Energy Ltd will monitor the performance of the supplier against the standards required by regulators and any additional standards imposed by the commercial contract. This will require the preferred supplier providing management information on the number of Union Energy customers and other relevant information to enable a full audit.

20 May 1999
